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INTELLIGENCE BRIEF

INDUSTRY BOOMS
AND AGRICULTURE STAGNATES IN POLAND

DIRECTORATE OF INTELLIGENCE

Office of Research and Reports

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INDUSTRY BOOMS AND AGRICULTURE STAGNATES IN POLAND

Polish industry has recovered from the difficulties of 1962-63 and once again is achieving rapid growth. The recovery in industry has made reforms of economic planning and management somewhat less pressing in Poland than in other Communist countries and has bolstered the regime's confidence -- in spite of the long-term stagnation of agriculture and the very slow improvement in living conditions. In 1964, for the first time since 1953, Poland earned a surplus in foreign trade, with a sizable favorable balance in its trade with the Communist world and a reduced deficit with the West. The financing of trade with the West, however, is becoming increasingly difficult because of the cessation of US credits to Poland, the large repayments coming due on past credits, and the continuing need to import grain.

1. Industry

Since the mid-1950's the rate of industrial growth in Poland has not tended to decline as in Czechoslovakia, East Germany, and Hungary. Industry suffered a temporary setback from the decrease in crop production in 1962, which affected Poland's large food-processing industry and which forced the regime to hold down imports of some industrial materials and to control increases in employment and wages. As a result, industrial production grew only about 5 percent in 1963. The recovery of agriculture since 1963 has been largely responsible for a resumption of rapid industrial growth in 1964-65. Gross industrial production rose about 9 percent in 1964 and was up nearly 11 percent in the first six months of 1965 over the corresponding period of 1964. In spite of the exceptionally low rate of growth in 1963, the growth of industrial production during 1961-65 has been nearly as high as during 1956-60. According to the official Polish index of gross production, industrial growth averaged about 8.5 percent during 1961-65, compared with about 9.5 percent in 1956-60. According to Western-type measures, the rate of industrial growth has been about 7 percent during 1961-65.

2. Agriculture and Food Supply

The output of meat, after being depressed for two years, regained most of the lost ground in the first half of 1965, although some of the improvement may be temporary. This improvement is the result of above-average crops of grain and potatoes and continued large imports of grain in both 1963 and 1964. The number of hogs and the output of meat declined sharply in 1963 as a result of the poor 1962 harvest. A record potato crop in 1964, however, provided additional feed and enabled

the Poles to increase the number of hogs this June to the 1962 level. Although meat production reportedly reached a new high in the first half of 1965, per capita availability of meat remained below the record 1961-62 level, and there have continued to be consumer complaints over shortages of better quality meats. These shortages have been caused by a sharp increase in meat exports during the first half of 1965. The supply of meat and other livestock products may continue to increase in the remainder of 1965. The improvement is likely to cease by mid-1966, however, and some decline may result next year from this year's shortfall in output of feed grains and potatoes.

The Poles have been deeply concerned with their inability to increase agricultural output and especially with their failure to meet grain production goals in recent years. Average net agricultural production for the period 1962-64 was only 7 percent greater than the average for 1957-59. Only in 1960 and 1961 did production show significant improvement. More important, in contrast to the uptrend through 1961, agricultural output since then has fallen to the 1960 level and remained stagnant. Average grain production in 1962-64 was 4 percent lower than in 1957-59 and was insufficient to supply both the direct domestic consumption market and the continued growth of livestock production. As a result, grain imports in 1962-64 averaged 2.7 million metric tons (mt) annually, compared with 1.6 million mt a year during 1957-59.

3. Foreign Trade

Polish exports have increased rapidly throughout 1961-65, averaging about 11 percent a year. Even in 1963, when agricultural exports declined substantially, total exports continued to grow because a leveling off of domestic purchases of machinery for investment permitted a rapid growth of machinery exports. This expansion of exports allowed Poland to increase total imports rapidly and to turn its perennial foreign trade deficit into a surplus of \$24 million in 1964. In trade with Communist countries, Poland had a deficit averaging \$160 million during 1960-63 but showed a surplus of \$44 million in 1964. An increase of about 17 percent a year in exports of machinery and equipment was a major factor in making this surplus possible. Because of sizable earnings from transportation services provided to the Communist countries, the surplus on all current account transactions with the Communist countries was even larger. In order to keep earnings and payments more closely balanced in 1965, the Poles have been running a small planned trade deficit with the Communist countries.

Poland apparently expects to be able to earn surpluses with the Communist countries in the next several years and has shown an interest in using such surpluses to cover deficits with the West. Poland is no longer able to achieve very large increases in its traditional exports of raw materials to the West and has had difficulty in expanding sales of manufactured goods to industrialized Western countries. As a result, Poland has come to be highly dependent on agricultural exports to earn hard currency. This situation has made imports from the industrialized West highly vulnerable to fluctuations in Polish agricultural production. The drop in agricultural production in 1962-63 on the one hand brought about a decline in agricultural exports and on the other hand made it necessary for the Poles to use their reduced hard currency earnings to import large quantities of grain, thus forcing a sharp cutback in imports of machinery and materials from the West. Moreover, the outlook for increasing agricultural exports rapidly in the next few years is not very favorable, because of the difficulties in raising output and the limitation placed by the Common Market on imports from outside the area.

The loss of US PL 480 credits since 1964 is likely to make Poland's problem of balancing trade with the West even more difficult in the next few years. Moreover, Poland faces a heavy burden of repayment on past credits. Debt repayment obligations to the United States alone will amount to more than \$20 million a year during 1966-70. A cut -- or even a leveling off -- of imports from the West is not a pleasant prospect for Poland, because the Bloc cannot supply some of the grain, materials, and modern machinery that Poland needs. This problem undoubtedly provides one of the motives for the recent Polish proposal to CEMA that balances in the CEMA bank earned as a result of payments surpluses be at least partly convertible into gold or hard currency and thus be usable outside the Bloc.

4. Living Conditions

The rapid growth of production in Poland has brought disproportionately small economic benefits to the Polish worker and consumer. In spite of the recovery of industry and agriculture since 1963, the regime has continued to squeeze the population, apparently confident that grumbling and dissatisfaction pose no threat to political stability. Although nonagricultural employment has risen fairly rapidly, leading to a steady increase in family incomes, average wage rates have gone up slowly and price increases have absorbed about half the increase in money wages, leaving the worker with an increase during 1961-65 of at

most 2 percent a year in his real wage. The drop in market supplies of meat and dairy products below the 1961-62 level, the slowness of their recovery, and the continued shortage of quality meats have been continuous sources of dissatisfaction. An additional reason for irritation undoubtedly is an increase in rents that went into effect on 1 October. This increase doubled the levy on state-owned and enterprise-owned dwellings and in some cases raised it by four or five times. Although the dissatisfaction of the population and the bleakness of life in Poland are evident, having been noted repeatedly by Western observers in Poland, the regime does not appear to be greatly concerned. In evaluating the performance of the economy and in formulating policies for future development, the regime is much more impressed by the rapid growth of the economy than by popular dissatisfaction and believes that the population can be put under continued pressure to pay for rapid expansion.

5. Economic Reform

The return of rapid economic growth in the last year and a half has largely dissipated the pressure for major internal economic reform in Poland. Once in the vanguard of the movement for economic liberalization, Poland now lags behind Czechoslovakia, the USSR, East Germany, and even Bulgaria in proposing and carrying out changes in the economic system. Following the example of other Bloc countries, the regime presented a program of economic reforms at a July Plenum of the Central Committee of the Polish Communist Party. Lip service was paid to the importance of profitability and to the need for giving broader scope to individual initiative, but specific measures in the reform program were limited to improvement of the existing system of planning, central control, and bureaucratic organization. The regime undoubtedly feels that if rapid growth can be achieved in spite of the deficiencies of the old system, major reforms are not very urgent, and the current inefficiencies do not warrant much, if any, reduction in state and Party control.

Sources:

State, Warsaw. Airgram A-1017, 10 May 65. OFF USE.
Biuletyn statystyczny, no 7, 1965, Annex 1. U.

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Department of State

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*c/o EUR/EE/State
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Dear Mr. Ambassador:

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interested in this most recent brief evaluation
of the Polish economy.


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CB 65-63

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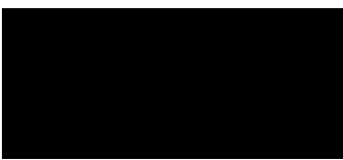
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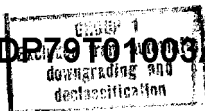
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